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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Mayor Of The District Of Columbia

COMPLETED

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Dishonored Checks Are A Drain On District Of Columbia Resources

Each year the District government loses millions of dollars due to dishonored checks. In addition, the District government incurs an average cost of about $18 to process each dishonored check. GAO found that:

--District agencies lack control of these checks.

--District agencies are not aggressively pursuing repayment of dishonored checks.

--Collections are hampered by a lengthy dishonored check process.

--Collection is not possible on many dishonored checks because District personnel do not record sufficient information when checks are first received.

Persistent and timely agency action should immediately reduce the financial losses suffered by the District and eventually reduce the number of dishonored checks. GAO recommends a number of steps the Mayor should take to this end.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-203834

The Honorable Marion S. Barry, Jr.
Mayor of the District of Columbia
Washington, D. C. 20004

Dear Mayor Barry:

The District loses several million dollars of revenue each year because city goods and services are paid for with checks that are not honored by the banks or by the makers of the checks. In addition to the lost revenue, the District estimates an average cost of about $18 to process each dishonored check. During fiscal year 1981 the District received over 11,000 dishonored checks valued at $3.5 million of which only about $1.4 million is expected to be repaid. Since 1978 the number of dishonored checks received in the District has increased by 71 percent.

According to District officials only about 40 percent of the dishonored checks received are repaid. At this rate, in fiscal year 1981 the District would lose about $2.1 million. We could not determine the actual 1981 losses because records were not available at the agency level. Records that were available, at the D.C. Treasury level, indicate a loss of $2.5 million in revenue, but this amount does not include agency collections which, on the basis of the District's estimate, would be in the $400,000 range. The District could improve its experience with dishonored checks by taking action to hasten collections and by reducing the number of such checks received through procedural and system changes. The District generally agreed with our report but took exception to the amount of losses cited in the report. The District's comments are included in the appendix and are discussed beginning on page 15.

Various District goods and services are purchased with dishonored checks, such as vital health records, copying services, tags, drivers' licenses, business and professional licenses, construction permits, and a multitude of other items. Many District agencies receive dishonored checks; however, most of these checks are received at three agencies--Department of Finance and Revenue (DFR), Department of Transportation (DOT), and Department of Environmental Services (DES).

The District's dishonored check problem is a major one in its own right; the magnitude of the problem becomes clearer when local jurisdictions' experiences are compared to the District's.

During fiscal year 1981 the District received 11,126 dishonored checks amounting to $3.5 million. During the same period, Fairfax County, Virginia, which has about the same number of residents, received 2,500 dishonored checks amounting to $629,000; Baltimore, Maryland, with a population one-third larger than the District, received 3,948 dishonored checks amounting to $578,325; and Richmond, Virginia, which has a population of about 200,000, considerably smaller than the District, received 488 checks amounting to $113,913.

We believe Fairfax County, Baltimore, and Richmond have limited problems with dishonored checks because strong collection measures are used. In Fairfax County, the Department of Finance notifies agencies of dishonored checks immediately so that service can be stopped. Baltimore charges the agencies' operating budgets with dishonored check fees thereby giving the agency an incentive to collect on dishonored checks. Richmond issues warrants for dishonored check writers when the checks are written to pay real and personal property taxes and traffic tickets. Fairfax County and Baltimore also make extensive use of the courts to collect dishonored checks. They forward dishonored checks written for real property taxes to their attorneys for action, and they place liens on bank accounts when checks are written for personal property taxes. In addition, all three jurisdictions cut off water service if a dishonored check is not repaid within two months, promptly notify agencies when a check is dishonored, and hold tax sales when real property taxes are delinquent because of unpaid dishonored checks.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our work was to evaluate the District's efforts to bill, record, and collect accounts receivable. During the audit, we noticed that agencies were receiving large numbers of dishonored checks and were having problems collecting them. Because of the time required to process and try to collect dishonored checks and because losses of about $2 million seemed probable for fiscal year 1981, we decided to issue a report on this aspect of our work so that the District can take early action to reduce the number of dishonored checks received and improve its collection experience.

We performed work at D.C. Treasury; Department of Housing and Community Development (DHCD); Department of Human Services (DHS); D.C. General Hospital; Recorder of Deeds; Department of Insurance; Office of Surveyor; Department of Licenses, Investigations and Inspections (DLII); DES; DOT; and DFR. We were denied access to most of the records associated with District revenue collected by DFR (about $713 million) because the revenue was derived from D.C. self-assessed tax payments and the information would have come from tax returns. As a result, except for real estate, we do not know whether DFR is having major problems

collecting dishonored checks. There could be problems in other DFR areas; uncollected dishonored checks returned to DFR by D.C. Treasury in fiscal year 1981 amounted to $1.5 million of the $2.5 million returned to all agencies.

We reviewed D.C. Treasury and operating agency records pertaining to bad checks, interviewed District officials and personnel involved in the dishonored check process, and attempted to trace dishonored checks from D.C. Treasury to the operating agencies. We were not able to locate many checks which, according to D.C. Treasury, had been sent to the agencies. Because of the large number of missing checks and lack of records at the agencies, it was not possible to take a statistical sample of the checks and draw conclusions as to the collection effort, amount paid or unpaid, and amount of followup.

Instead of a statistical sample, we took a judgment sample of names from D.C. Treasury letters transmitting unpaid checks to the agencies. We traced the names to agency records where possible. Without any centralized records, monitoring system, or followup system, we felt that a judgment sample would provide adequate data to allow us to reach conclusions on the problem at the lowest audit cost. We also discussed dishonored check processing and collection with officials of Fairfax County, Virginia; Richmond, Virginia; and Baltimore, Maryland.

THE DISTRICT'S DISHONORED CHECK PROCESS

As the custodial agent of District funds, the D.C. Treasury receives dishonored checks from the banks. D.C. Treasury personnel record summary information from each batch of checks received and prepare a letter notifying the check writer that his check has been returned unpaid by the bank and requesting payment within 15 days. This effort results in repayment of about 25 percent of the checks.

Those checks not repaid after D.C. Treasury's initial collection effort are sent to the agencies for collection. The agencies continue collection efforts by various means including letters, telephone calls, and charging the check writer's account if he has one with the District. When amounts are charged to the check writer's account, such as with water bills or real estate taxes, the agency is supposed to also charge the account with the dishonored check fee and any penalty and interest.

ACTION IS NEEDED TO HASTEN COLLECTION OF DISHONORED CHECKS

As a rule, timely collection action on a debt increases the possibility of collection. Most agencies were not taking timely, forceful, and persistent action to collect dishonored checks. As a result, millions of dollars of unpaid checks were held by agencies with little being done to collect.

Part of the problem is that agencies are not aggressively pursuing repayments of dishonored checks. The agencies do not have anything to gain if they collect or to lose if they do not collect. In some agencies we visited, the person assigned to work with dishonored checks had other duties and said that there was too much other work to be done. Also, controls over the checks are lacking, lengthy delays occur before agencies learn that banks have returned checks unpaid, and sufficient information is not always included on checks to enable agencies to trace the check writer or identify the bill paid.

Allowing dishonored check writers to purchase goods and services without an aggressive attempt to obtain repayment encourages them to write more dishonored checks--which results in an even heavier workload and more lost revenue for the city. Aggressive action tends to reduce the number of dishonored checks. The number of dishonored checks received by the District has been increasing at a high rate since 1978. In 1978 the District received about 6,500 dishonored checks compared to 11,120 in 1981--an average increase of over 20 percent each year. Part of the increase may be attributed to the lack of a concentrated, aggressive collection effort.

Aggressive action should be taken to obtain repayment of checks

Agencies are not aggressively pursuing repayments of dishonored checks. Fifty of 136 checks we traced to the agencies had not had any agency collection action. Also, agencies had not followed up on any of the checks at regular intervals. The agencies can improve collections by (1) following up on every dishonored check at regular intervals with letters, telephone calls, or personal visits; (2) revoking licenses, canceling permits, or stopping services; and (3) retrieving licenses and permits purchased with dishonored checks.

Agency officials informed us that the District does not have written procedures for processing and collecting dishonored checks. In some cases agencies prepared their own procedures; in one case none were available. General procedures, similar to the Federal collection standards, could be established for all District agencies.

Federal collection standards require agencies to take prompt and aggressive action to collect amounts due the Government. Generally, three written demands are to be made upon debtors informing them of the consequences of failure to pay. Also, personal interviews are to be held whenever feasible. All collection actions are to be documented, and the documentation is to be retained. The District should establish similar criteria for the agencies.

We selected 136 dishonored checks for followup to determine the status of each. The checks were not paid while at D.C. Treasury and had been sent to the agencies for collection. The following schedule shows a breakdown of the checks and details the collection effort for each of nine agencies.

DISPOSITION OF DISHONORED CHECKS SENT TO AGENCIES FOR COLLECTION

Agency	Number of checks	Number paid	Records not found	Number unpaid	Collection attempts on unpaid checks		
					none	one	two
D.C. General Hospital	5	-	4	1	1	-	-
DES	16	8	-	8	-	8	-
DHCD	6	1	-	5	5	-	-
DHS	19	-	9	10	3	7	-
Department of Insurance	6	1	4	1	1	-	-
DLII	35	6	9	20	15	5	-
DOT	24	4	5	15	8	7	-
Recorder of Deeds	21	1	3	17	16	1	-
Office of Surveyor	4	-	1	3	1	2	-
Total	136	21	35	80	50	30	-

This schedule highlights the lack of aggressive collection effort. Of the 136 dishonored checks we attempted to trace, only 21 had been repaid according to the agencies' records. For 35 checks we were unable to ascertain what had been done or even where they were. Of the 80 unpaid checks, no collection action had been taken on 50 checks, and only one letter had been written or one telephone call made for each of the remaining 30 checks.

The Department of Transportation, Bureau of Traffic Adjudication, had about $43,000 worth of dishonored checks in an inactive file. We were told that followup could not be made because adequate information was not available on the checks. We reviewed the checks and noticed that in most cases the name and address of the maker was available and in some cases tag and permit information was on the checks. We selected 24 checks from the inactive file and through tag and permit information on the checks located four of the names of the check writers in the DOT computer. None of the names had a stop in the computer to prevent the dishonored check writer from obtaining D.C. tags and permits although DOT policy required that such stops be used in these cases.

Also, DOT collection efforts were not timely. In another sample taken, we selected 24 names from D.C. Treasury dishonored check files to test collection efforts. The checks were unpaid and consequently sent to DOT for collection. Eight of the checks in our sample had been in DOT control for over 30 days without any type of collection action being taken.

We discussed the results of our work at DOT with the Assistant to the Director of the Bureau of Traffic Adjudication. She agreed to monitor the work on dishonored checks to make sure that collection action is persistent and timely.

At DFR where we did not take a sample (see p. 2), dishonored checks were not being aggressively pursued because the person responsible had other duties that prevented timely processing. We scanned numerous dishonored checks in DFR which were to be charged back to real estate accounts. As of November 1981, these checks (one of which was dated in 1979, others in 1980 and 1981) had not been charged back to the makers' accounts. The person responsible for processing the checks said that other duties precluded her from processing the checks. In this case, the District is deprived of the use of funds; if the properties are sold before the liens are recorded, the District may lose its leverage to force collection of the dishonored checks.

At the time of our initial contacts with D.C. Treasury, dishonored checks were sent to the DFR real estate section as soon as the bank returned the checks. DFR researched its records to determine the amount of penalty and interest and returned the checks to D.C. Treasury for processing. At the time of our review checks amounting to $138,805 had been at DFR for an average of 6 months. At our suggestion D.C. Treasury changed its process to complete all work prior to sending checks to DFR, thus making the D.C. Treasury process more efficient and timely. Because of our limited access to DFR records, we do not know whether checks sent to other parts of DFR were being pursued in the same manner as in the real estate section.

At the time of our initial contact with some agencies, dishonored check duties were performed only when employees had time. As our review progressed, some agencies began putting records in order and designing systems to obtain repayment. For example, in DLII at the time of our initial contact, the agency was doing very little to collect dishonored checks. After our inquiries, one branch took action which included placing stops in the file, establishing a check log, and sending letters to dishonored check writers. The letters stated that the license obtained would be revoked if repayment was not made. Initially we were told that DLII could not revoke a license paid for with a dishonored check, but we pointed out that such licenses could and should be revoked.

A short time after implementing the new system, the agency collected $220 in dishonored checks and check fees from one person who had purchased his license every year since 1978 with dishonored checks.

Another action which would encourage prompt payment is to stop services or revoke licenses and permits in cases which involve a dishonored check if the check is not repaid within a specified time period. DES's Water and Sewer Division charges dishonored checks and the check fees to customer accounts, but they do not take action to discontinue water service until the following billing period. The District bills twice each year for residential service. We noticed that some DES checks written in 1980 were unpaid in November 1981, but the service had not been discontinued. A DES official explained that they do not have enough staff to turn the water off immediately after a dishonored check is received. Fairfax County, Richmond, and Baltimore discontinue water services within two months after a dishonored check is received unless it is repaid. The District could use a similar system to collect on dishonored checks and to discourage dishonored check writers.

Additionally, when long term licenses and permits (those good for 6 months or more) are purchased with dishonored checks, District agencies do not generally retrieve these permits and licenses. Officials said that the workload precludes them from putting people on the road to pick up licenses and permits except in special cases. Baltimore and Fairfax County officials said it is their policy to pick up licenses and permits paid for with dishonored checks. They pointed out that this policy highlights the seriousness with which they view the dishonored check problem and that they have been successful in obtaining payment on checks when the possibility of losing a license or permit is forcefully impressed upon each check writer. Such a policy in the District should help collections and reduce the number of dishonored checks.

Officials in Baltimore, Fairfax County, and Richmond are successful in collecting dishonored checks because they employ aggressive, immediate collection action. In addition, Baltimore charges the agencies' operating budgets with check fees. A similar program in the District could provide the agencies with an incentive to take more forceful collection action on dishonored checks. Charging the agencies' operating budgets will not reduce the overall costs to the city but should make the agencies more aware of the problem if they lose part of their operating funds.

Better control of dishonored checks is needed to support collection efforts

Aggressive collection action must be supported by a good control system which, among other things, informs management of what has happened, where checks are, and the status of each check. The District needs to improve in this area because it does not have central control over dishonored checks, does not monitor the process to determine whether collections are being made, and does not have a system to account for unpaid dishonored checks. Without monitoring and accountability, management cannot control dishonored checks and increase collection of amounts due.

District agencies were not able to determine the status of 35 of 136 (see p. 5) checks we attempted to trace because a good system for controlling the checks had not been established. At DOT, checks were found in several places and at one location were stored in cardboard boxes. No one knew for sure where specific checks were located. The D.C. Treasury maintained good summary records which included log books and transmittal letters, but they had no detailed records on each check after the checks were returned to the agencies. The agencies did not generally keep either detailed or summary records of the dishonored checks received and did not have a system for recording incoming checks, determining the status of checks (such as paid or unpaid), or keeping track of collection efforts.

At the time of our initial contact, most of the agencies had not established a dishonored check log or any way of readily determining whether they had received a particular check or what had happened to the check if it had been received. However, as our work progressed, one agency began establishing better controls including check logs, but more needs to be done. Dishonored checks should be controlled at a central location, and the agencies should have to account to the central location for the disposition of dishonored checks. Otherwise, collection efforts are left to the discretion of agencies which are not being held accountable for collecting on the dishonored checks.

Ideally, the central location would be D.C. Treasury. Checks received at the central location from banks should be (1) individually logged in when received; (2) given a control number which is recorded on the checks and in the log; and (3) filed until they are repaid. This system would be similar to the one operated by the city of Baltimore which received about two-thirds fewer checks in fiscal year 1981 than did the District. We believe that part of the reason Baltimore had so few checks was because it had good control over dishonored checks (i.e. adequate

recordkeeping and followup action) and because the city provided an incentive for agencies to collect by charging their operating budgets with dishonored check fees.

Lengthy check processing delays collections

The amount of time it takes the District to return unpaid dishonored checks to the agencies for collection precludes efficient collection efforts. As a rule, timely collection action on a debt increases the possibility of collection. District agencies do not know that checks have been dishonored by the banks until anywhere from 25 to 105 calendar days after the check has been returned. This time period could be reduced to less than 10 days by making two changes in procedures--one at the banks and one at D.C. Treasury.

We analyzed the time it took to process 112 dishonored checks from the date of deposit to the date unpaid checks were returned to the agencies for collection. For the 81 checks where data was available, the average elapsed time was 60 days. Processing time at D.C. Treasury for these checks ranged from 25 to 105 calendar days and averaged 52 days from the time the banks returned the checks. During this period D.C. Treasury sent letters requesting repayments to all dishonored check writers, kept records which included recording summary information in log books, processed payments, and prepared transmittal letters to return the unpaid checks to the agencies.

In many cases, expedient processing of dishonored checks is critical to a successful collection effort. For example, officials in DLII; the Office of Surveyor; and DES said that if they knew immediately that a check was dishonored by the bank, some services could be stopped and many licenses and permits revoked before work is completed. Such action could force early repayment of the check. In Fairfax County, when a check is returned by the bank, the central processing unit immediately notifies the agency involved so that action to collect, stop services, or retrieve licenses can be undertaken.

Processing dishonored checks through the banks takes considerable time. We selected 22 checks which had been dishonored and returned to D.C. Treasury. The average bank processing time for these checks was 9 calendar days. Some of the checks had been processed by the banks twice, some three times, and some four times. One way the District could speed up the dishonored check process is to change the current arrangements with the banks so that dishonored checks are deposited only twice. If a check is not honored the second time, it seems unlikely that the status of an account would change during the third deposit. The time saved could be used to pursue other collection methods. Baltimore, Richmond, and Fairfax County have banks deposit dishonored checks only twice before returning them.

Changing procedures at D.C. Treasury could also save considerable time. It currently takes an average of 52 calendar days for D.C. Treasury to return uncollected checks to the agencies. Until agency officials receive the transmittal letters with the checks, they do not know that checks have been dishonored. The elapsed time from the date the D.C. Treasury receives dishonored checks from the bank to the date checks were returned to the agencies for collection could be reduced from 52 days to about 1 day. D.C. Treasury could photocopy the dishonored checks on the day received and send the copy to the agencies that day so that agency personnel can take timely action to stop work or revoke licenses or permits where applicable. Coordination between D.C. Treasury and the agencies would be required to make sure the check has not been paid before the agency takes action to pick up the license or permit.

Better information is needed on checks

Collection effort is not possible on many dishonored checks because District agencies do not record sufficient information on the checks when received. Sometimes dishonored checks did not have preprinted names and addresses, a control or account number to identify the type of payment, or any notation to identify the agency. If sufficient information is not on a check to enable tracing, collection action cannot be taken.

District cashiers will not accept payments unless a bill is attached. At the time a check is received with a bill, sufficient data is available to identify the check writer and the purpose of the payment. However, the bill and check are separated shortly after they are received, and the check writer's identity is sometimes lost if there is insufficient information on the check to link the bill and the check. Personnel who accept payments are supposed to make sure that certain information is on the checks, but in many cases this is not done.

For example, in the DOT Bureau of Traffic Adjudication, $43,000 in dishonored checks dating back to 1979 were considered uncollectable because these checks lacked names, addresses, license plate numbers, or traffic ticket numbers. Although we were able to trace some of the checks (see p. 5), sufficient information was clearly lacking on other checks. In another case, a DHCD official had been holding a $1,800 dishonored check for 3 months because he did not know who it belonged to or where to send it.

It is essential for District agencies to be able to trace dishonored checks if any collection action is to be taken. A system used by many private companies--stamping and recording information on the back of each check when the check is first received--would help to identify the check and the purpose of payment. Each District location receiving checks should have a stamp with the information specifically appropriate to that location.

In addition to the stamp, better information could be maintained on checks if written procedures were provided at D.C. cashier sites specifying the type of information needed to be recorded for each agency. The D.C. Treasury has six cashier sites, but some sites do not have such written procedures for reference. This has caused problems in the past. For example, we noticed that some of the uncollected checks in the DOT Bureau of Traffic Adjudication did not have ticket numbers on the checks. According to a DOT official, ticket numbers are supposed to be put on the checks by the tellers. However, according to the supervisor at the cashier site, the tellers were not aware that such information was to be put on the checks. The result is that some checks could not be traced to the check writers, and no collection effort was possible. The tellers were advised of the requirement after we talked to the supervisor.

CONCLUSIONS

The District could increase annual revenues by taking timely and persistent action to collect dishonored checks. In order to collect promptly, District management will have to take an interest in the collection effort and provide incentive for agencies to collect such as charging the agencies' operating budgets with dishonored check fees. Persistent and timely agency action, including stopping services, revoking licenses, and canceling permits should provide immediate reduction in the losses suffered by the District and ultimately in the number of dishonored checks received. Improving the information recorded on checks would also help.

RECOMMENDATIONS

In order to improve collections the Mayor should:

--Assign a high priority to collecting dishonored checks and emphasize to District employees and citizens that such collection will be vigorously pursued.

--Require D.C. Treasury to (1) centrally control dishonored checks; (2) log each dishonored check in a log book; (3) assign a number to each check and write the number on the check and in the log book; (4) keep the checks under its physical control until repaid or officially disposed of; and (5) monitor agency collection efforts.

--Require the D.C. Treasury to photocopy dishonored checks and return them to the agencies on the same day the banks return them to the District.

--Establish check collection criteria for all agencies to follow specifying (1) the types of followup actions and (2) when each action should be initiated.

--Instruct all agencies to maintain a log of incoming dishonored checks which will identify the checks, collection efforts, and status of the checks (i.e. paid, unpaid, charged to monthly bill, etc.).

--Require agencies to stop services, revoke licenses, or cancel permits when these items are paid for with dishonored checks and retrieve the licenses and permits if checks are not repaid.

--Charge District agencies' operating budgets with the dishonored check fees.

--Instruct banks to deposit dishonored checks no more than two times.

In addition, to provide better control over all checks the Mayor should:

--Instruct agencies to stamp the back of checks upon receipt and record certain information which would identify the transaction.

--Require the D.C. Treasurer to provide written procedures at each cashier site which specify the type of information needed on checks for each major agency.

PROCEDURAL AND SYSTEM CHANGES WOULD REDUCE THE NUMBER OF DISHONORED CHECKS RECEIVED

Several changes could be made which would reduce the number of dishonored checks passed to the District. These changes taken individually may not have a large impact on the dishonored check problem, but collectively the effect should be significant. The changes range from requiring dishonored check lists to stopping D.C. Treasury from acting as a banking facility for District employees.

Check lists could deter repeat dishonored check passers

The District does not have a dishonored check list for agency use. As a result, it is possible for dishonored check writers to pass such checks to different agencies or to pass dishonored checks to the same agency year after year. A check list with names of check writers who have passed two or more unpaid dishonored checks to the District would help keep down the number of dishonored checks received.

For example, one check writer who had purchased his District licenses since 1978 with dishonored checks could have been detected earlier if a check list had been available. A dishonored check list is used by Fairfax County to identify people who write dishonored checks to different agencies. A similar system could help the District reduce the number of dishonored checks received. In Baltimore, repeat dishonored check writers are identified, and cashiers are instructed not to accept personal checks from these individuals.

The District should require cash in some cases

Requiring cash for over-the-counter purchases of less than $20 would help the District reduce the number of dishonored checks received. We estimate that at least 15 percent of all dishonored checks received in 1981 were under $20; however, we were not able to obtain a good estimate of the number taken in over-the-counter.

We noticed that many checks were for relatively small amounts--the smallest was 25 cents. The majority of small checks ($20 or less) were passed to various agencies--DHS for vital records; DLII for licenses and permits; and DOT for payment of traffic tickets. All of these agencies have heavy over-the-counter payment activity. Placing a minimum on the amount of each check accepted over-the-counter could immediately reduce the number of dishonored checks received.

Discontinue cashing employees' checks

We noted that District employees cashed checks at D.C. Treasury. According to D.C. Treasury records, during the period June 1977 to October 1981, 92 of these personal checks were dishonored. Dollar amounts available on 73 of the checks totaled $1,904. According to a D.C. Treasury official, all of the checks had been repaid. The District is not a banking institution and therefore should not absorb the cost and administrative burden associated with providing such services. The city of Richmond will cash employees' personal checks under certain restrictive circumstances. Officials in Baltimore and Fairfax County said that employees are not allowed to cash personal or business checks unless it is for paying bills due the jurisdiction. The District should adopt a similar policy.

Letters requesting check repayments should be compatible

An area that would help indirectly to reduce the number of dishonored checks involves the letter sent by D.C. Treasury requesting payment for dishonored checks. The letter states that

if payment is not received in 15 days the dishonored check will be sent to the Corporation Counsel for action. However, during fiscal year 1981 none of the 8,379 uncollected checks were sent to the Corporation Counsel, and the D.C. Treasury Returned Check Specialist advised us that the D.C. Treasury does not send checks to the Corporation Counsel for prosecution. The D.C. Treasury letter should describe a course of action that would be taken if the check is unpaid.

In many cases after the unpaid checks are sent to the agencies for collection, another letter is sent describing a different course of action; often this action is less severe than described in the D.C. Treasury letter. When this happens, we believe people are inclined not to respond to either letter and not to send payment for the checks. The D.C. Treasury and agencies' letters should complement rather than contradict each other. If legal action is appropriate, and we believe there might be cases when it is, the check writer should be notified and legal action should be taken.

CONCLUSIONS

A concentrated effort is needed to change the public's attitude that it is all right to pay for District services, licenses, and permits with dishonored checks. Implementing the procedural and system changes discussed in this section should provide the direction needed to reduce the problem to manageable proportions.

RECOMMENDATIONS

The Mayor should:

--Have D.C. Treasury maintain a dishonored check list and distribute it monthly to agencies.

--Prohibit agencies from accepting personal or business checks from people who have two or more unpaid dishonored checks on file.

--Require agencies to accept "cash only" for over-the-counter purchases of less than $20.

--Prohibit District employees from cashing personal and business checks at District facilities unless they are paying District bills.

--Have the D.C. Controller and the agencies formulate dishonored check letters that complement each other and describe a course of action that will be taken if payment is not received.

--Instruct agencies to refer dishonored check cases to the Corporation Counsel and instruct the Corporation Counsel to take legal action, as appropriate, to recover monies due the District and to deter future dishonored check writers.

AGENCY COMMENTS AND GAO ANALYSIS

The D.C. Controller, commenting on our draft report in behalf of the Mayor, concurred with most of our findings and agreed to take necessary steps to implement the recommendations with one exception--charging District agencies' operating budgets with dishonored check fees. We recommended that agencies' operating budgets be charged with dishonored check fees because most agencies made little attempt to control or collect dishonored checks. The D.C. Controller offered no specific reasons for not concurring with our recommendation. We continue to believe that charging the agencies' operating budgets could provide the agencies with an incentive to take more forceful collection action. If agency directors knew that their operating budgets would be affected by uncollected dishonored checks, it is likely that collection efforts would be more aggressive and diligent.

The D.C. Controller said that without adequate information we assumed that agencies do not collect dishonored checks; consequently, he doubted the validity of the amount of losses we cited in the report. According to the Controller, the estimated $2.1 million we reported represented only the dollar value of dishonored checks returned to agencies by the District Treasury. Also, he said dishonored checks are treated as a receivable and any collection made would not be identified as a recovery of dishonored checks.

We believe that the $2.1 million cited in the report is a reasonable approximation of District losses from dishonored checks, but as stated on page 1 of the report, we were not able to determine the 1981 losses precisely because records were not available. The losses we cited were based on the best available information at the time, which came from and was attributed to District sources. We could not statistically test the validity of the District figures because agencies had little control over and recorded little information about dishonored checks. However, a small judgment sample we took tended to verify that agencies were doing little to collect dishonored checks.

The Controller's reply questions the amount of losses cited in the report--$2.5 million less agency collections--which the District estimates would have been about $400,000. The resulting $2.1 million estimated loss was based on an internal District study and discussions with the author of the study. According to the D.C. Treasury analyst who made the study and the report he

issued, only about 40 percent of the District's dishonored checks are repaid--about 25 percent to D.C. Treasury and an average of 15 percent to the agencies. At the 15 percent rate in fiscal year 1981, District losses would have been $2.1 million.

The D.C. Treasury analyst's estimate appeared reasonable. We found that in fiscal year 1981, D.C. Treasury collected about 25 percent of the checks it received from the banks. Also, we found that most agencies were doing little to collect dishonored checks which means that their collection percentage would be small as the D.C. Treasury analyst estimated. Consequently, we believe the $2.1 million reported loss is a reasonable estimate of District losses from dishonored checks.

With respect to the accounting treatment of dishonored checks, we noted that only 2 of the 9 agencies reviewed treated dishonored checks as accounts receivable. We do not know how DFR treated dishonored checks because we did not have access to most of its records, but the other agencies we reviewed did as follows. D.C. Treasury recorded dishonored checks as accounts receivable at the time the checks were received from the banks. However, when the uncollected checks were forwarded to the agencies, the D.C. Treasury reversed the accounts receivable entry for the amount of checks forwarded. This entry would be proper if the agencies entered the amount of checks as a receivable, but only DES did this. The other agencies did not record anything unless checks were repaid. Thus, most dishonored checks returned to the agencies are not accounted for in agency accounting records. Also, because most agencies do not record dishonored checks as a receivable, accounts receivable are understated each year.

Dishonored checks should be recorded in agency accounting records, and the agency records should include amounts for recovery of dishonored checks. Without such information there is no way to control losses, and the District will have to continue to estimate its losses from uncollected dishonored checks.

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Section 736(b) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, requires the Mayor, within 90 days after receiving our audit report, to state in writing to the District Council what has been done to comply with our recommendations and send a copy of the statement to the Congress. Section 442(a)(5) of the same act also requires the

Mayor to report, in the District of Columbia's annual budget request to the Congress, on the status of efforts to comply with such recommendations.

We are sending copies of this report to interested congressional committees; the Director, Office of Management and Budget; and to each member of the Council of the District of Columbia.

Sincerely yours,

W.J. Anderson

William J. Anderson
Director

GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE

CONTROLLER
415 12TH STREET, N.W. ROOM 412
WASHINGTON, D.C. 20004

December 23, 1981

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

Your proposed report "Dishonored Checks Are a Drain on District of Columbia Resources GGD-82-23" has been referred to my office. After a very careful reading of the report, I assigned George Thomas, CPA, Manager of Disbursement, and Fred Williams, Assistant Treasurer, to review and physically test the procedures currently being followed as well as the recommended procedures. We concur with most of your findings and will accordingly begin to take the necessary steps for implementation with minor exceptions, i.e., charging District agencies' appropriations for the amount of the dishonored check fee.

While we concur that the need to improve collection efforts is obvious, we doubt the validity of the loss as cited by the report. The amount of the loss represents only the dollar value of dishonored checks returned to the District of Columbia agencies by the Treasury. However, from an accounting point of view, dishonored checks are treated as an accounts receivable and any collections made would not be identified as a recovery of dishonored checks. Without adequate identification, GAO has assumed that no collections are made.

We wish to thank GAO for the report. Evaluations of current operations assist in the improvement of our internal procedures and in our efforts to improve fiscal management in the government of the District of Columbia.

Sincerely,

Alphonse G Hill
D.C. Controller

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